FERC Technical Conference on Generation Market Power & Affiliate Abuse Issues

Panel on Market Definition

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Background

- The Pacific Northwest (PNW) region, comprised of Washington, Oregon, Idaho, and western Montana, has a regional load of approximately 20,000 aMW
- Puget Sound Energy is an investor-owned utility located in western Washington State serving 1 million electric and 800,000 natural gas customers
- The Pacific Northwest is home to the Bonneville Power Administration
    - BPA serves about 40 percent of the region's energy needs
    - BPA owns and operates about 75 percent of the region's high voltage transmission system (about 15,000 circuit miles of transmission lines)

Factors for defining the right market

(1) Are wholesale loads embedded inside of the IOU control areas?

(2) Is the regional transmission infrastructure robust?

(3) Do wholesale trades occur within IOU control areas?

(4) Are there regional trading hubs? Are they liquid and transparent?

Given these factors, the relevant “market” in the PNW should be the entire PNW market, not individual control areas.

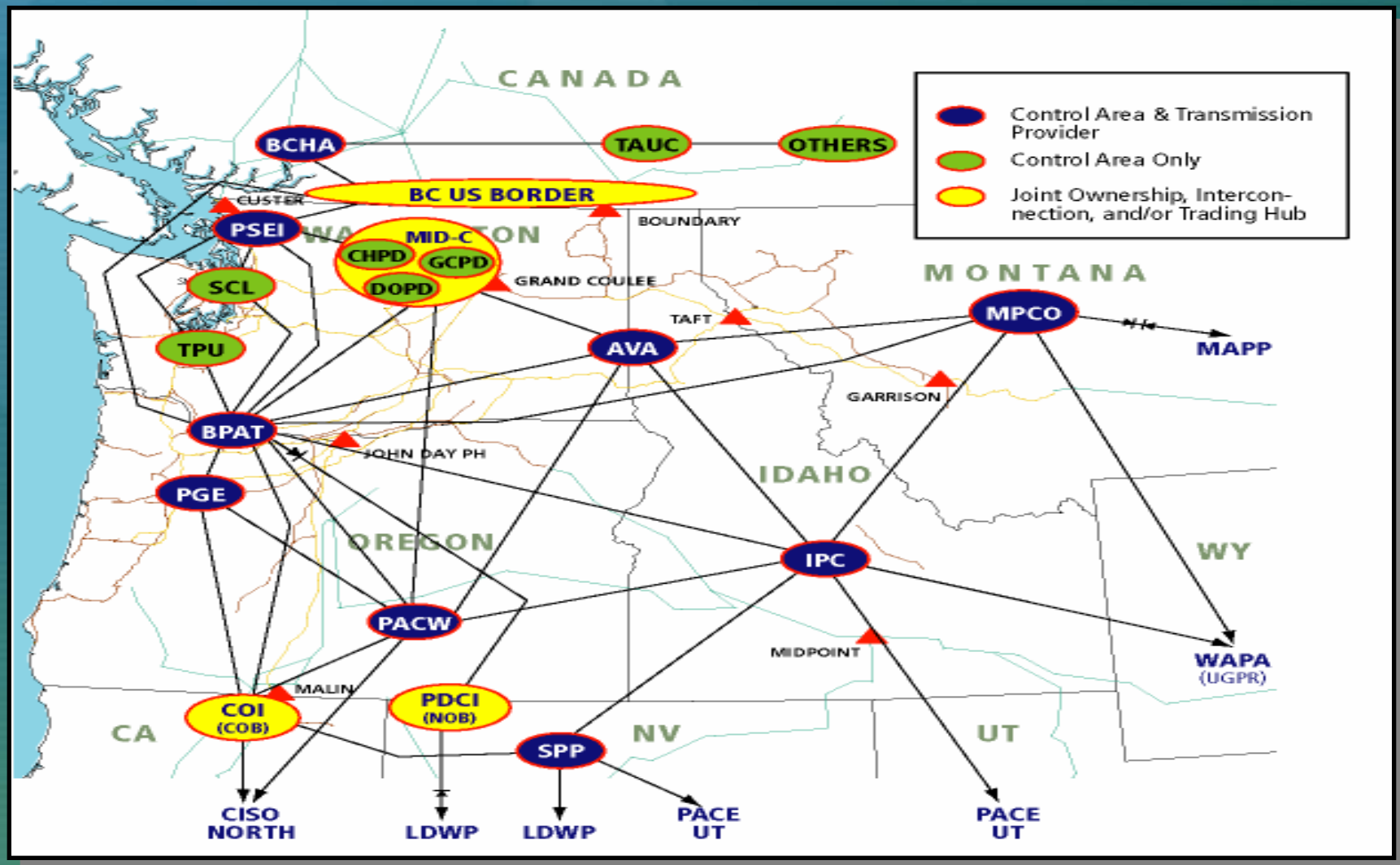
Control Areas in the PNW are NOT a Market

- Few, if any, wholesale utility customers are imbedded inside of IOU control areas; there are none in Puget's control area
- The PNW has a robust transmission grid
  - BPA is a single dominant transmission provider to which all utilities are interconnected
  - PNW has a robust regional energy and transmission planning process
- No wholesale utility customers are dependent on any IOU for transmission; all are connected through BPA with access to liquid trading hubs
- Bulk of wholesale power transactions are executed at an established and liquid trading hub, NOT within an IOU's control area
- Technical challenges with applying current screen at control area level in PNW:
  - generation within control areas often substantially less than load;
  - import capability to control areas often substantially greater than load;
  - Appendix E does not address these circumstances

Competitiveness of PNW Markets

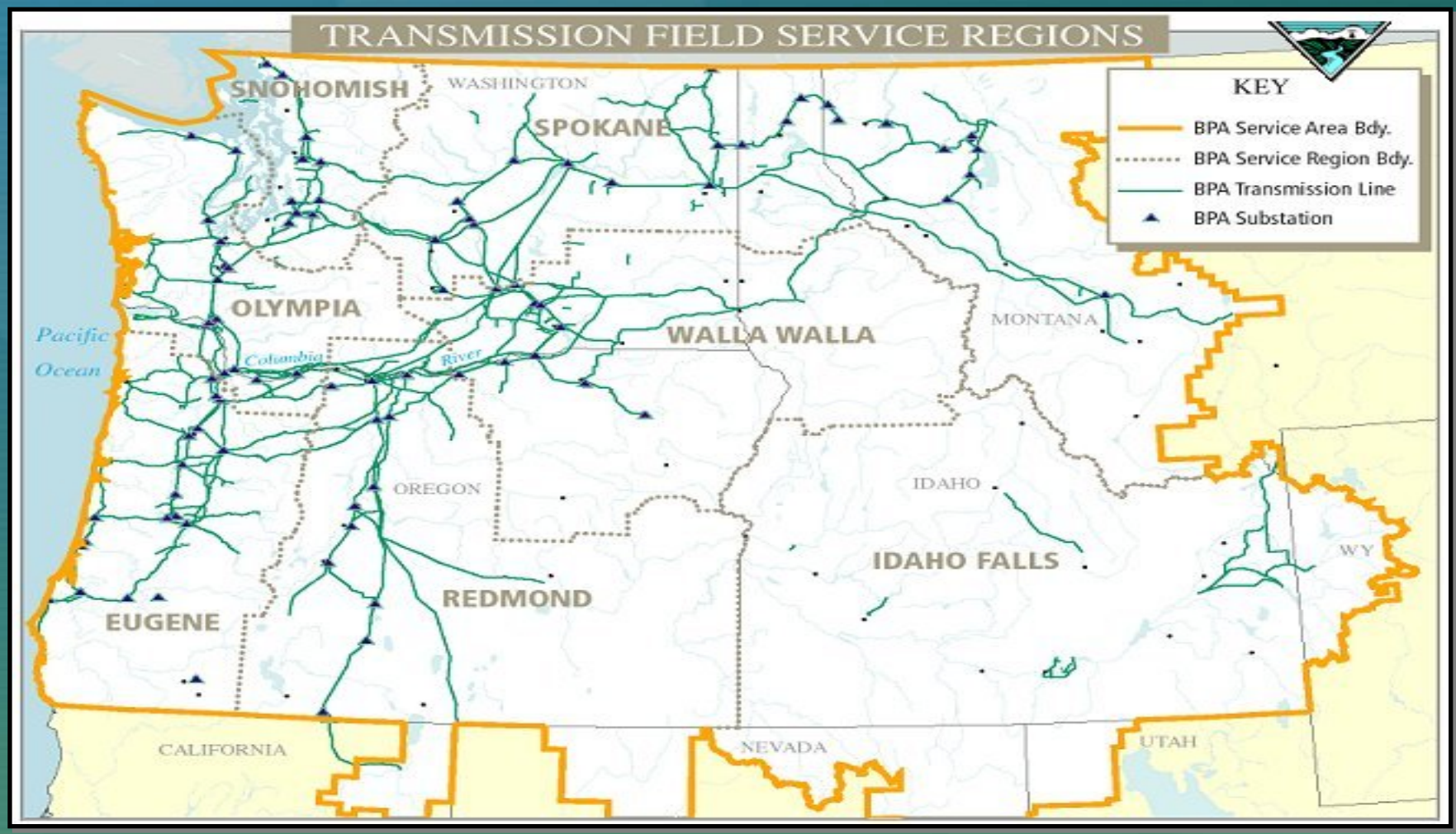
- Roughly 60 percent of the region's electricity comes from hydroelectric generation.
- Because of regional interconnectedness, trading is NOT conducted inside of control areas but occurs at liquid and transparent trading hubs in the PNW:
    - Mid-Columbia (MidC) - a virtual bus that connects several Federally-owned hydro projects in central Washington State. This is the primary PNW trading hub for power.
    - California-Oregon Border & Nevada-Oregon Border (COB & NOB) - enables the West Coast to capitalize on the seasonal diversity between the PNW and the SW.
- Substantial price transparency for volumes traded at PNW hubs.

Pacific Northwest Transmission Interfaces



Source: Western Electricity Coordinating Council

BPA High Voltage Grid



Source: BPA

Conclusion

- The vast majority of wholesale power sales transactions in the PNW are executed at one of a small number of established and liquid trading hubs, not within a utility's control area.
- All wholesale utility customers are directly connected through BPA to regional trading hubs.
- In these circumstances, the relevant market for determining market power of PNW utilities should be the entire PNW market, not individual control areas.
- There are adverse consequences to both competition and to market participants if the incorrect market is targeted.